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## ON THE QUESTION OF REAL ESTATE SPECULATION (1)

ECONOFICTION FINANCE, GENTRIFICATION, REAL ESTATE SPECULATION, RENT

Today, on the one hand, we are seeing rising rents and the infamous gentrification, vertical housing construction and expensive condominiums in the centres of large cities, monstrous large-scale projects and massive urbanization processes in the emerging countries and peripheries, and on the other hand, the increase in urban poverty, vacancies and building ruins as signs of real estate bubbles migrating across the continents. There is a close relationship between urbanization and the crisis-like dynamics of capital accumulation, while at the same time social movements, riots and revolts radically question the dominant urbanization. Since the financial crash of 2008, gigantic sums of money have flowed into the real estate sector in search of new investment opportunities and, even more so, as a result of the low-interest policy. The mere fact that it remains dependent on the limited natural resource of land means that the investment spectacle, especially in large cities, is reflected in sharply rising real estate prices, with assets growing by leaps and bounds, while larger sections of the wage-dependent population are pushed into the outskirts of cities and, on a global scale, the surplus population in the slums is vegetating as accumulated corpse-likeness.

In his book "Seventeen Contradictions and the End of Capitalism", David Harvey attempted to explain the problem surrounding the real estate industry by first explaining the relation between the utility value and the exchange value of a house. As a utility value, the house offers a place for living and thus for everyday reproduction, a kind of territory that makes security and privacy possible for the inhabitants. In addition, the house can also serve as a status symbol and may have architectural or tourist significance. From the exchange value side, it should be noted that in order to use a house, you must either lease, rent or buy it. So the house has a price that has to be paid either as a rent or as a purchase price in order to carry out a specific use in each case.

In addition to the primitive construction of tin or wooden huts, which are often built with neighborhood help and whose costs (especially material) are relatively low, there are the commissioned works, in which a landowner instructs an architect, builder and craftsman to build a residential house according to a certain plan. The price/exchange value of the house is determined by the cost of raw materials, wages and services.

A residential house is usually a rather expensive purchase, where the consumption of the house extends over many years, a consumption that, if you cannot pay the house in cash, is settled by rent or rents payable to the house owner, or you borrow

money or take a mortgage from a bank to buy a house. During the term of the mortgage, the full price of the house plus monthly interest is payable. Only after a period of a few years does the ownership of the house pass to the buyer. This transforms the house into an asset, whereby the buyer can also have the part of the price that he has realised through his monthly payments paid out to him (minus maintenance costs). However, the exchange value/price of the house is anything but a fixed value, insofar as it is influenced by a number of economic factors, such as the price of the houses in the vicinity (which social class lives in the vicinity of the house), the community in surround mode and a number of other so-called externalities.

Furthermore, housing is created through speculation by transforming the house into a commodity that can be rented/bought on the market by anyone who can afford the house – the exchange value is not determined solely by the basic costs of building the house (raw materials and labour), but there are additional costs: firstly, the investor's profit, who raises the starting capital and possibly pays interest on loans taken out, and secondly, the costs of buying or leasing the building land; the price of the house is thus determined by the actual construction costs, plus the investor's profit, plus interest on loans, and finally by the land price. Of course, when managing the house, the investor speculates on the exchange value and is less interested in the utility value, whereas he is concerned, to be more precise, with the potential, i.e. the future exchange value of the house. (In the struggles for affordable housing and social housing projects, on the other hand, the utility value aspect for the workers and the lower classes has been much more strongly focused in history).

Capitalisation is also the speculation on the real estate market immanent. Housing production is now definitely associated with economic risks, inasmuch as in the future no profit (which is to be understood as a basic pension if it relates to the land) could accrue for the investor. With regard to the basic rent, a distinction is made between the real basic rent, which is fed by the current rent payments, and the future/potential basic rent, which is determined by the anticipated profitable realisation of a property or by the highest possible rent increases. Thus, a district becomes interesting for real estate investors as an object of gentrification precisely when the difference between the current and potentially realisable basic rent increases to such an extent that investments are worthwhile in view of the high return expectations in this district in comparison to other investment spheres. Entire residential complexes are thus transformed into financial assets.

Today, the large physical masses of fixed capital that are present in built-up areas circulate, above all as interest-bearing capital that appropriates pensions. The generation of annuities and the associated circulation of interest-bearing capital is reflected in the existence of a huge global mortgage market. David Harvey subsumes under the term "built environment" all produced physical and immobile elements in space (factory and office buildings, residential buildings, roads, railway lines or ports). The environment, especially built in cities, requires a capital-, labor- and time-intensive production process, whereby the spent capital is tied up over long periods of time and only slowly flows back into the various economic cycles. Investment in the built environment of cities enables the absorption of labour and surplus capital, the temporal transformation of which into the future is important here. Commercial banks can provide money for construction companies to build housing complexes and for consumers to buy these houses through mortgage loans. In times of cheap loans and large liquidity surpluses of the banks, both the supply and the demand for houses can lead to an investment bubble.

Since financialisation, which began around 1970, houses and housing complexes have increasingly become objects of speculation. Housing is now regarded as a kind of cash machine for the owners, whereby it also increases overall demand, including that for residential real estate. This can lead to waves of speculation, which can go as far as the Ponzi scheme: You buy a house on credit when house prices rise and rising real estate prices attract more and more investors who want to buy houses. They borrow money relatively easily during the boom, as the banks are liquid, and invest in real estate, whereby their prices continue to rise, so that even more investors and institutions enter the game, until a bubble occurs, which can of course burst at some point. In the real estate crash in the USA in 2008, around 4 million people lost their homes to foreclosures. When house prices at the peak point had risen to such an extent that many people had to take out large loans for their homes, the crisis, when house prices fell again, proved that the loans could not be repaid.

The real estate market, especially speculation with land and ground rent, implies a similar speculative potential to that of fictitious and speculative capital. As long as all players involved in the real estate markets believe that high revenues can be generated from the rental or sale of real estate in the future, land and real estate prices and thus yields will continue to rise. This trend is reinforced by the fact that investments in the built environment are based on loans, fictitious and speculative capital (mortgages, CDOs, etc.) due to their capacity and long duration. The close links to the financial markets resulting from the transformation of real estate and land into assets/financial assets are accelerating this rapid development. If the profit rates for the industrial and commercial capital cycle are low, a price spiral can be set in motion by the money capital flowing into the real estate sector, which makes the emergence of a credit-financed real estate boom probable. However, due to the long investment periods and the immobility of the built environment, the technological level, the geographical environment and the associated type of development, capital is also fixed over time. Despite the rapid economic growth the factors of the built environment are therefore regularly transformed from a prerequisite to a limit of capital accumulation. This is all the more true since the transfer of surplus capital to the real estate sector and the speculative dynamics inherent in it, especially in large infrastructure projects and urban real estate markets, create the danger of overproduction of the built environment or the formation of a real estate bubble. If the investments made turn out to be economically unprofitable or if supply and demand are disproportionately related, the built environment threatens to lose massive value.

Financing problems also arise on the rental markets. In the metropolises, pension, share and investment funds are buying up entire residential complexes today in order to be able to achieve returns through rent increases, whereby the current utility values are often allowed to decay in order to carry out planned reinvestments. This is, of course, a risky business in which the funds themselves can go bankrupt or at least incur losses.

At present, real estate prices in major German cities are rising massively; we are dealing with inflation on the real estate market, especially with regard to land prices. The more land and property prices rise, the easier it is for large investors at the moment to obtain further loans from banks to buy real estate, because higher asset prices also mean higher securities, which can in turn be used to acquire loans. Rising assets allow more credit to be created, which in turn leads to rising assets and further lending. There is a massive purchase of securities, real estate and derivatives and, consequently, asset inflation on the financial markets.

From a macroeconomic point of view, mortgage loans are only partially productive: namely in the construction of real estate, while no productive use is made in the acquisition of existing real estate. It can be assumed that since 1990 about three-quarters of the money generated by commercial banks has been used to buy various financial assets, which has a self-reinforcing effect, because the more the prices of securities (and real estate) rise on the market, the easier it is for banks to grant new loans that are used to buy securities. They thus initiate a further increase in securities prices, which in turn leads to the creation of new loans. This leads to constantly rising prices and rising real estate prices, while sustained price increases on the financial markets lead to the formation of bubbles. In 2016, loans used to buy securities on Wall Street reached a new high of USD 551 billion.

Private banks are currently granting a large proportion of their loans as mortgages. According to economist Mathias Binswanger, according to a mortgage study he quoted on lending in 17 industrialised countries (England, USA, Switzerland, etc.) since 1990, this share can account on average for up to 60% of banks' lending volume. This is due on the one hand to the increase in the number of homeowners and on the other to the rising demand for increasingly expensive housing, especially in the urban centres of the metropolises. Large industrial and commercial companies, on the other hand, are no longer necessarily dependent on the granting of bank loans or even the issue of corporate bonds in order to obtain financial funds for their own investments; they tend to issue new shares or finance themselves from the returns on their investments. However, the long-term loans granted to companies remain structurally important, even though only a small part of the assets of private banks consists of loans for productive investments.

1) Marx assumes that the ownership of a piece of land leads to a pension, although it has no value as a natural force, because it does not contain any human labour. The absolute pension is the condition for the differential pension, which can be determined under the condition of the existence of different pensions that yield different returns. The differential pension contains the extra profit obtained by the mechanisms of competition. During the realization, the seller/lessor receives back more value than the dead and living labor contained in the product. The surplus profit flows to the landowner as a pension when the land is leased or leased. When analysing the real estate capital, it may be sufficient to derive the cost of the land price from its market price and its interest rate.

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## META

CONTACT  
FORCE-INC/MILLE PLATEAUX

IMPRESSUM  
DATENSCHUTZERKLÄRUNG

## TAXONOMY

CATEGORIES  
TAGS  
AUTHORS  
ALL INPUT

## SOCIAL

FACEBOOK  
INSTAGRAM  
TWITTER